

VZCZCXRO1292  
OO RUEHFK RUEHKS RUEHNH  
DE RUEHKO #0018/01 0052339  
ZNY CCCCC ZZH  
O 052339Z JAN 10  
FM AMEMBASSY TOKYO  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8527  
INFO RUEHFK/AMCONSUL FUKUOKA IMMEDIATE 8163  
RUEHNH/AMCONSUL NAHA IMMEDIATE 0508  
RUEHOK/AMCONSUL OSAKA KOBE IMMEDIATE 1976  
RUEHKS/AMCONSUL SAPPORO IMMEDIATE 8663  
RUEATRS/TREASURY DEPT WASHDC IMMEDIATE  
RHEHAAA/NSC WASHDC IMMEDIATE  
RUCPDO/USDOC WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 000018

SIPDIS

TREASURY FOR DOHNER, WINSHIP, AND FOSTER  
STATE FOR E, EEB AND EAP/J  
NSC FOR DANNY RUSSELL AND JIM LOI  
STATE PASS TO USTR FOR AUSTR CUTLER, BEEMAN, LEE AND HOLLOWAY

E.O. 12958: DECL: 01/04/2020

TAGS: [ECON](#) [EFIN](#) [JA](#)

SUBJECT: JAPAN'S MODEST FY2010 TAX CHANGE PROPOSALS

Classified By: DCM James P. Zumwalt, reasons 1.4 (b) and (d).

¶1. (SBU) Summary: The Hatoyama Cabinet approved a package of tax change proposals that calls for maintaining the gasoline tax at the present rate, narrowing the scope of two personal income tax deductions for dependents, and raising the tobacco tax, on December 22. The changes will result in a net increase of about JPY980 billion (US\$11 billion) in combined national and local tax revenues. The package did not include a reduction in the corporate income tax rate from the present 40 percent or raising the consumption tax, currently set at 5 percent. The ruling Democratic Party of Japan (DPJ) has said that it would not raise the consumption tax rate during the current term of the Lower House (August 2009 - August 2013). Bills to implement the changes will be submitted to the ordinary Diet session in late January 2010. Diet approval is expected in late March. End Summary.

DPJ's New Structure for Tax Reform

¶2. (SBU) In October, the Hatoyama administration created a new Government Tax Commission, composed of three ministers and 21 vice ministers and parliamentary secretaries from individual ministries. Finance Minister Hirohisa Fujii serves as chairman and runs the meetings, and both National Policy Minister Naoto Kan and Internal Affairs and Communications Minister Kazuhiro Haraguchi serve as nominal co-chairmen. This commission is the sole decision-making body for tax reform, replacing the previous Government Tax Committee and the Liberal Democratic Party (LDP) Tax Council. The Government Tax Committee, an advisory body to the prime minister composed of academics, business leaders and others, had been charged with formulating general policy recommendations. The LDP Tax Council had played a more important role in proposing specific tax reforms, but was criticized for a lack of transparency. The newly created Tax Commission enhanced transparency of the tax reform process by broadcasting its discussions live over the Internet.

Major Tax Changes

¶3. (U) Following are major tax change proposals approved by the Cabinet on December 22:

-- Personal Income Tax

¶4. (U) The personal income tax deduction for dependents aged 15 or younger (JPY380,000 or US\$4,130 per year for each

dependent) will be eliminated starting January 2011, with the start of a new child allowance. In FY2010 under the new child allowance, the government will pay out JPY13,000 (US\$141) per month for each child until graduation from middle school, and JPY26,000 (US\$283) per month for each child from FY2011.

15. (U) The special personal income tax deduction for dependents aged 16 to 18 will be reduced from JPY630,000 (US\$6,848) per year to JPY380,000 (US\$4,130) from January 2011. This is concurrent with the DPJ's program to make high school effectively free.

#### -- Financial Market Taxes

16. (U) After the temporary cut in the tax rate from 20 percent to 10 percent on both capital gains from listed share sales and dividend income expires at the end of December 2011, a new tax-free program will be introduced from January 2012 to encourage individual investors to invest in stocks. Under the new program, combined annual capital gains and annual dividend income of up to JPY1 million (US\$10,870) will be exempted from income tax during a three-year period (2012-2014).

#### -- Corporate Tax

17. (U) With declining corporate tax rates in many countries, anti-tax haven rules for Japanese overseas subsidiaries will be eased by lowering the threshold rate for the corporate income tax from the present 25 percent to 20 percent, for the

TOKYO 00000018 002 OF 002

business year starting April 2010. At present, the GOJ considers overseas subsidiaries operating in regions where the corporate income tax rates are 25 percent or lower as tax havens. In calculating tax liabilities, Japanese parent companies are required to include part of the profits earned by their subsidiaries operating in tax havens.

#### -- Other Taxes

18. (SBU) The surcharge rate on the automobile tonnage tax will be halved from JPY3,800 to JPY1,900 per half ton (US\$41 to US\$21). Surcharge rates on three other road-related taxes -- the gasoline tax, diesel oil delivery tax, and automobile acquisition tax -- will be replaced by new so-called "special" rates, but will result in no change in the tax rates. (Note: In its August 2009 manifesto, the DPJ had promised to abolish these surcharge rates from April 2010. Elimination of the surcharge rate on gasoline, for example, was estimated to reduce the gasoline price by JPY25 (US\$0.27) per liter. End note.)

19. (U) The tobacco tax will be increased by JPY3.5 per cigarette from the current JPY8.7 to JPY12.2 (US\$0.13), effective October 2010. With cigarette makers charging an additional JPY1.5 per cigarette, the price of a pack of 20 cigarettes will be raised by about JPY100 (US\$1.09).

110. (U) In order to stimulate the housing market, the exemption limit on the gift tax from parents to children (for the purpose of home purchase and renovation) will be raised from the present JPY5 million (US\$54,348) to JPY15 million (US\$163,043) for a one-year period from January 2010. This exemption limit will be reduced to JPY10 million (US\$108,696) from January 2011. This program will be limited to taxpayers with JPY20 million (US\$217,391) or less in annual income.

#### Tax Reforms under Consideration

111. (U) To combat global warming, the Government Tax Commission will continue to deliberate on a new environmental tax for FY2011. In addition, the Government Tax Commission is forming a project team to make a recommendation on

introducing a taxpayer identification number system (like a Social Security number) within 12 months. The Cabinet's National Policy Unit will also consider creating a new revenue agency through the integration of the National Tax Agency and the Social Insurance Agency.

Comment

-----

¶12. (C) The FY2010 tax reform proposals are only expected to raise an additional JPY980 billion (US\$11 billion) in national and local tax revenues -- against a projected FY2010 budget deficit of about JPY44 trillion (US\$478 billion). More significant tax reforms, including a hike in the consumption tax rate, broadening the corporate tax base, broadening the personal income tax base, and allowing more fiscal autonomy to local governments, would help boost revenue while limiting the negative impact on economic growth, but are unlikely in the run-up to the expected July 2010 Upper House elections.  
ROOS